SENATE COMMITTEE ON SMALL BUSINESS
"THE SBA FY 2005 BUDGET"
February 12, 2004

Prepared Remarks of Mr. Anthony R. Wilkinson
President & CEO
National Association of Government Guaranteed Lenders, Inc.
Stillwater, OK

The National Association of Government Guaranteed Lenders, Inc. (NAGGL) is a trade association for participants of the Small Business Administration (SBA) section 7(a) program. Our members account for approximately 80% of 7(a) loans made annually. Commonly called the SBA's "flagship" program, the 7(a) program has proven to be an excellent public/private sector partnership. Over the last decade, the SBA has approved approximately 450,000 loans for almost $100 billion. We thank the Committee for the opportunity to testify on the SBA FY 2005 budget request and other current issues facing the SBA 7(a) program community.

The Current Crisis

The current problem is a result of an inadequate FY 2004 budget request. The SBA approved over $11 billion in 7(a) loans in FY 2003. This number includes the STAR program—a temporary program for businesses affected by the events of September 11, 2001—which was run through the general 7(a) program. Still, the budget for FY 2004 was for only $9.4 billion in program authority. The SBA claimed that loan volume would decline in FY 2004 because the STAR loan program had expired. NAGGL argued last year that small business loan demand would not decline simply because a particular loan program expired. In fact loan demand in the last months of FY 2003 was almost $1 billion per month even though the STAR program had expired in January. In our testimony last year, NAGGL estimated FY 2004 7(a) loan demand of approximately $12.5 billion. Actual loan volume through the first quarter of FY 2004 was $3.122 billion, supporting this estimate of demand made in February, 2003.

Late in the afternoon on December 23, 2003, the SBA notified the Senate and House Small Business Committees of their intent to cap the SBA 7(a) loan program in 15 days, or January 8, 2004. The SBA set the cap at $750,000, reducing the loan size maximum $1,250,000 from its $2 million statutory limit. The timing of the notification raises the question, with the SBA approving about $1 billion per month for several months prior to the notice, why didn't the SBA admit its problem earlier?

Then on January 6, 2004, without warning the SBA then announced that it was shutting down the 7(a) program, injuring over a thousand small businesses and lenders, many of whom had rushed to submit loan applications before the $750,000 cap went into effect. The SBA had, in effect, closed the program before January 6 because the Agency stopped processing most large loans before then. The SBA then took the unprecedented step of returning all outstanding applications to lenders rather than processing the loans to the point of final approval. During similar funding shortfalls in the past, the SBA simply processed these loans but stopped just short of issuing a final approval, and, as additional loan authority became available, the pending loan applications were approved in the order in which they had been received. Not this time.

This year the SBA rejected all applications, returning hard copy loan files and destroying faxed applications. When the SBA decided to restart the program a week later, applicants and lenders were required to resubmit their applications for processing. For loans over $750,000 that had been submitted prior to the deadline, the SBA's response has been "too bad." The very federal agency that is supposed to be the small business's advocate has caused many small businesses undue harm and led to many anxious moments. Applicants spent time and money to complete their applications, only to have the SBA reject and return them; and many of these prospective borrowers had made irreversible commitments that they can no longer honor due to the denial of SBA assistance. We believe that this was an unconscionable act by the Administration, and we hope that Congress will demand that the SBA now process any application that had been received by the January 8th deadline. The SBA should not be allowed to circumvent the 15-day notice requirement in the Small Business Act.

Piggyback Restriction

When the SBA restarted the program, it added even more program restrictions, once again ignoring the 15-day notice requirement of the Small Business Act. Along with the $750,000 loan cap, the SBA announced a prohibition of 7(a) loans coupled with conventional loans in larger loan packages, frequently referred to as the "piggyback" structure. A lender utilizes the 7(a) program because an applicant has a credit deficiency. In some instances an applicant has a need that is larger than the maximum loan size allowed under the 7(a) program. To mitigate the risk, a lender may utilize a piggyback structure so the lender can meet the borrowers' financing needs.

For example, assume that an applicant needs to borrow $1 million. In a piggyback structure, a lender could provide a $250,000 conventional loan in a first lien position, and a $750,000 SBA 7(a) loan in second lien position.

This is similar to the loan structure provided in the SBA 504 program, but with two key differences. With a 504 loan the SBA has 100% of the credit risk on the second mortgage loan. With a 7(a) loan, under the piggyback structure, the originating private sector 7(a) lender has at least a 25% pro-rata share of the second lien loan, meaning the lender is sharing in the credit risk. The second difference is that the government collects substantially more fees on a 7(a) loan than it does on a 504 loan. From a subsidy perspective, the government would collect more fees on a 7(a) piggyback structure than they would on a 504 loan structure.

Piggybacks are especially useful when the SBA institutes a loan cap. Some of the applicants now caught by the SBA's unconscionable act could have found financing through a piggyback loan structure. With the new piggyback prohibition, there is no way to meet the needs of many applicants seeking loans in excess of the $750,000 cap. We request that this Committee, through legislation if necessary, require that the SBA allow the use of piggyback loans so that lenders have a vehicle to serve those small businesses that need larger loan packages.

Statistics

The SBA loan programs are the largest source of long-term capital for small business in this country. From bank "call" reports, the SBA office of Advocacy reports there are $485 billion in outstanding small business loans. From FDIC data, only about 20% of those loans (approximately $95 billion) have an original maturity over 3 years. The average original maturity of an SBA 7(a) loan is about 14 years, and the SBA 504 average is even longer. The balance of the outstanding 7(a) portfolio is approximately $40 billion—a significant percentage of all outstanding long-term small business loans. Small businesses simply cannot afford to have the SBA take arbitrary actions that destabilize their major source of long-term debt capital.

Small Businesses Harmed

The actions taken by the SBA in FY 2004 have gravely and irrevocably harmed thousands of entrepreneurs at a time when the nation's economy is struggling to create jobs. Most disturbing about this occurrence is that throughout 2003 the administration repeatedly ignored signs that loan demand was exceeding the SBA's available funds and chose not to act, instead delaying action until Congress had adjourned for the year. Rather than foreseeing and acting to prevent this crisis, one of the federal government's most important economic development programs has been destabilized. The SBA's recent action to reopen the program falls way short of what small businesses need. In fact the program remains closed to those borrowers who would have accounted for 40% of dollars lent prior to the SBA's recent actions.

FY 2005 BUDGET

Why More Fees?

On the heels of its inadequate 7(a) program budget request for fiscal year (FY) 2004, the Administration on February 2 proposed raising 7(a) program fees even more for 2005. The President's FY 2005 budget calls for a zero subsidy rate and no appropriations, both arrived at by allowing a 2-year fee reduction bill passed in 2002 to expire. Two years ago, Congress passed legislation decreasing the ongoing lender servicing fee from .5% to .25%, the borrower guarantee fee on loans of $150,000 or less from 2% to 1%, and the borrower guarantee fee on loans over $150,000 up to $700,000 from 3% to 2.5%. The Administration's plan is to let the fees revert back to their original levels.

The Administration is proposing no federal support for the 7(a) program—the first time in the 50-year history of the SBA that zero appropriations would be provided for the program. Additionally, the SBA is asking for authority to adjust fees in the future to ensure that the subsidy rate remains at zero. As of the writing of this testimony, the SBA has not provided any material details on its proposal.

It behooves us to ask how much trust we should have that we will get a fair and reasonable subsidy calculation going forward if we accept this proposal. Last year, the SBA and Office of Management and Budget (OMB) had to be forced by legislation to recalculate the subsidy rate. This year, Congress asked the Government Accounting Office (GAO) to validate the new subsidy model, and the SBA and OMB have stonewalled the issue by refusing to provide requested information. Finally, it is suspicious that the sunset of legislation coincidentally results in a subsidy rate of exactly zero. As of the writing of this testimony, the SBA has not provided material details explaining how the requested fee increase would bring the current subsidy rate of 1.06 to exactly zero.

It is disturbing that the program would face further fee increases (taxes) given that the GAO has documented the fact that 7(a) lenders and borrowers have already returned over $1.2 billion in excess fees to the Treasury. It does not seem to matter that the Administration had a budget bust this year, requesting too little program authority, resulting in loan caps and program restrictions that have harmed many small business applicants who had filed their loan applications in a timely manner. It appears that in addition to many borrowers being told "too bad " this year, next year's borrowers will be told "more fees" (taxes).

FY 2005 Loan Demand

With its FY 2005 estimate of demand of $12.5 billion, the Administration has finally recognized that small business loan demand has grown, albeit a year late. We question, however, the need to limit this program. If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why limit the program to anything less than the authorization limit of $16.5 billion proposed in the pending reauthorization bill? If the Administration wants to support the 7(a) loan program and its mission to provide long-term capital to small business, why not take steps now that will lift the lending restrictions and meet the needs of small businesses that exist today? We were told a few weeks back that the SBA was working on a formal reprogramming proposal. To the best of our knowledge, no such request has been submitted.

Conclusion

Last year NAGGL testified that a reasonable estimate of demand for FY 2004 would be $12.5 billion. The SBA adamantly opposed our estimate, saying that $9.3 billion would be sufficient. The result of the inadequate budget request and resulting inadequate program level has ended up harming many small businesses. Today many applicants cannot find financing for their larger loan packages. Meanwhile, jobs are being lost and businesses are closing their doors.

Small businesses do not need rhetoric about how important they are. Small businesses need to be treated fairly. Small businesses need access to capital. Small businesses need the Administration and Congress to support the SBA and its loan programs.

Thank you for the opportunity to testify before the Committee.

United States Hispanic Chamber of Commerce

For Immediate Release

January 12, 2004

Contact: Natalia Martinez
202-842-1212 ext. 114

STATEMENT BY USHCC PRESIDENT GEORGE HERRERA ON BUSH ADMINISTRATION'S SMALL BUSINESS LOAN ANNOUNCEMENT

WASHINGTON, D.C.—Today, George Herrera, President and CEO of the United States Hispanic Chamber of Commerce (USHCC), issued the following statement in response to the Bush Administration's recent announcement to discontinue loans through the Small Business Administration's (SBA) 7(a) loan program and to cap 7(a) loan size at $750,000.

I am disappointed and outraged by the Administration's decision to restrict spending for one of the SBA's most vital lending initiatives. I echo the sentiment of Congresswoman Nydia Velazquez (D-NY) that this is detrimental to the small business community, the 1.2 million Hispanic-owned firms in the United States and to our nation's economy.

Small businesses are vital to the continued growth of our economy, comprising 98 percent of all U.S. businesses and generating 60 to 80 percent of new jobs annually. However, lack of access to capital and a struggling economy has forced many of these firms to turn to the SBA 7(a) loan program to meet their financing needs. The flagship loan program accounts for 40 percent of all long-term small business lending, including thousands of loans to Hispanic and women-owned firms. Without this valuable resource, many small businesses and entrepreneurs would have little means to grow or start their businesses.

While this may appear to be a way to save money, canceling 7(a) loans could cost the nation thousands of dollars in the long run by impeding the strongest economic driver we have. At a time when our economy struggles to create jobs, small businesses, particularly Hispanic-owned firms, need greater avenues to capital, not to have the doors closed to them. I urge President Bush to reconsider his decision—the nation's small businesses depend on it.

The USHCC represents the interests of more than 1.2 million Hispanic-owned businesses in the United States and Puerto Rico, which earn more than $200 billion annually. It serves as the umbrella organization for more than 153 local Hispanic chambers nationwide and it actively promotes the economic growth and development of Hispanic entrepreneurs. Visit www.ushcc.com for more information.

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510–6350

January 8, 2004

VIA FACSIMILE & FIRST-CLASS MAIL

The President
The White House
Washington, D.C. 20500

Re: The Administration's "Lending Holiday" for the SBA's Largest Small Business Loan Program

Dear Mr. President:

As the office was closing Tuesday night, the Senate Committee on Small Business and Entrepreneurship received an email from the Small Business Administration announcing that your Administration was instituting a "lending holiday" for the 7(a) Loan Guarantee program. On behalf of the nation's small business borrowers and the lenders who provide these loans on behalf of the SBA, and as members of the SBA's Senate oversight committee, we strongly object to closing down the SBA's largest small business lending program.

We also object to the Agency taking such actions without complying with the statutorily required 15-day notice period. Neither the Agency's letter of December 23, 2003, advising the authorizing committees of the Agency's intent to institute an undefined cap on 7(a) loans as of January 8th and to prepare for a hiatus in guarantee issuance, nor the email sent Tuesday night, officially and immediately shutting down the program, meet the test of notification as required by law.

Mr. President, it should not be, and would not be, necessary to shut down the program, or even impose loan limitations, if the Administration had requested sufficient funding in its budgets, responsibly monitored lending, and acted in a timely way to adjust to the growing demand for 7(a) loans. To review the Administration's record: in FY2002, the Administration proposed eliminating all funding for the program and shifting the cost to small borrowers and lenders each year by increasing the fees by almost $130 million. Congress rejected this approach. In FY2003, the Administration cut the program in half, requesting only $4.85 billion in lending authority when the projections exceeded $11 billion. This higher level was actualized according to SBA's data and occurred despite a loan cap in place for almost half the year. In FY2004, the Agency requested only $9.3 billion, even though industry projections and past loan volume anticipated a 7(a) loan volume of more than $12 billion. These projections have proved accurate given the loan activity of the first three months of this fiscal year. Because of this mismanagement, each year the Congress has been forced to bail out the Agency with additional appropriations, and sometimes with emergency legislation.

These repeated miscalculations make a mockery of the millions the SBA has spent on a loan monitoring system, undermine the stability and effectiveness of one the country's largest sources of long-term lending for small businesses, and also undermine the Administration's credibility. More importantly, shutting down the program has left hundreds of small businesses without access to what is estimated to be more than $600 million in small business loans.

In addition, with respect to loans that are already in the SBA processing "pipeline," and contrary to the direction issued in the Policy Notice (No. 0000-1707) that the SBA released Tuesday night, the Agency should not return or destroy any loan applications it receives. The Agency should instead hold the loan applications and date when they are received so that they can be processed in the order they were received once the program is again operating and guaranteeing loans. This approach is fair and does not penalize those who have pending applications. It is our hope and expectation that once SBA resumes 7(a) lending it will fund, at a minimum, all loans that were pending up until January 8th, the date on which a $750,000 cap for the rest of the fiscal year is to begin, according to SBA's policy notice (5000-902) issued on December 30, 2003.

Mr. President, it is unnecessary for the Administration to close down the program when the SBA has the discretion to reprogram money to continue guaranteeing small business loans. We call upon you to reprogram money immediately in order to get small businesses the loans they are waiting for, and to reprogram money that does not hurt the other programs vital to small businesses. That would keep the 7(a) small business loans available until Congress comes back into session, at which time the Administration could send up a request for supplemental funding to permit the program to meet the projected demand throughout the remainder of fiscal year 2004. To avoid repeating a shortfall in FY2005, we urge you to request a program level and budget authority that funds the 7(a) loan program to reflect the past few years of growing demand. A reasonable program level would be at least $13 billion.

The SBA's 7(a) Loan Program is one of the largest sources of long-term lending to small businesses in this country and the source of more than 347,000 jobs created last year. We cannot afford for this program to be shut down or crippled. As we have done repeatedly in each of the past three years, we are willing to work with the Administration and our Congressional colleagues to help the SBA continue to provide small businesses the loans they need to be successful and continue as the nation's top job producers.

We thank you, in advance, for considering our requests.

Sincerely,

John F. Kerry

Carl Levin

Tom Harkin

Joseph I. Lieberman

Mary L. Landrieu

John Edwards

Maria Cantwell

Evan Bayh

Mark Pryor

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
108th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–6315

January 12, 2004

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President:

We are writing to express our objection to the administration's mismanagement of the Small Business Administration's (SBA) flagship 7(a) loan program that resulted in its recent shutdown. The 7(a) loan program, which accounts for approximately 30 percent of all long-term small business lending, is a proven catalyst for job creation and economic development in our local communities.

These recent actions will have a devastating impact on our nation's small businesses, curtailing the infusion of capital into our economy at a time when the unemployment rate is near a ten-year high. Given this reality, the SBA should be spurring job creation and economic development by meeting the capital needs of small businesses, not impeding a program that is vital to the future of America's entrepreneurs and workers.

The genesis of this crisis is rooted in the administration's previous budget requests. The funding request for this important program has steadily declined from President Clinton's budget request of $11.5 billion in 2001 to the Bush administration's most recent request of $9.3 billion in 2004. This decrease is inconsistent with the demand for 7(a) loans, which has increased to more than $12 billion in 2004.

As a result of these inadequate budget requests, the stage was set for the financial collapse of the program. The first sign of this collapse was seen in the administration's December 23, 2003 announcement of a cap of $750,000 on 7(a) loan size. This announcement caused a flurry of activity as small business lenders rushed their applications to the SBA for processing and approval. Even though the effect of this announcement should have been foreseeable, the administration was caught off guard as loan demand increased significantly. Instead of managing its operation to account for this heightened demand, the administration made the extreme decision on January 6, 2004 to shutdown the 7(a) loan program and return all pending applications to small businesses.

These actions have seriously and irreversibly injured thousands of small companies at a time when the nation's economy is struggling to create new jobs and move forward. Most disturbing about this occurrence is throughout 2003 your administration repeatedly ignored signs that loan demand was exceeding SBA's available funds and chose not to act, instead delaying action until Congress was adjourned for the year. Rather than preventing this crisis, one of the federal government's most important economic development programs was shut down. We are calling on the administration to act swiftly to fix these problems so that America's entrepreneurs do not continue to suffer.

This crisis must be resolved quickly and the 7(a) loan program must recommence its operations as soon as possible. To ensure the program's operation in the near-term, the administration must reprogram any and all available funds; this will allow for the immediate reopening of the program. After the program is operational again, the administration must make a request in the form of a supplemental appropriation to ensure that it can meet demand for 7(a) loans. Beyond FY 2004, the administration must make certain the program can function smoothly, so that these interruptions do not recur and undermine the program's future viability. With this mind, the FY 2005 budget must represent the program's true level of demand, which can be approximated by this year's 7(a) loan level projection of $12 billion.

In resolving this situation, those small business owners who were awaiting action on applications submitted during the shutdown should not be disadvantaged. The administration must guarantee all loans that currently have been cancelled or returned to lenders are given priority, regardless of loan size, when the 7(a) loan program resumes. If the SBA does not honor its commitment, such action will undermine the standing of the program in the long-term and call into question the administration's integrity in operating its flagship loan program. Under no circumstances should the administration be permitted to shirk its responsibility to those small businesses that have been harmed by its decision to cease operations of the 7(a) loan program.

Small businesses are responsible for driving job creation and contributing to positive economic growth. This is especially important now as recent reports confirm that the economy is failing to create new jobs. A real commitment from the administration to the small business sector would stimulate economic growth in communities across the country. Without such a commitment, small businesses will be unable to create new jobs and fully contribute to a sustainable economic recovery.

Thank you for considering our views on this important matter. We look forward to working with you to resolve this crisis and ensure that our nation's entrepreneurs have the capital they need to grow and expand.

Sincerely,

Nydia M. Velazquez
Ranking Minority Member

Juanita Millender-McDonald
Member of Congress

Tom Udall
Member of Congress

Frank W. Ballance, Jr.
Member of Congress

Danny K. Davis
Member of Congress

Eni F.H. Faleomavaega
Member of Congress

Donna M. Christian-Christensen
Member of Congress

Grace F. Napolitano
Member of Congress

Aníbal Acevedo-Vilá
Member of Congress

Ed Case
Member of Congress

Madeleine Z. Bordallo
Member of Congress

Jim Marshall
Member of Congress

Denise L. Majette
Member of Congress

Michael H. Michaud
Member Congress

Brad Miller
Member Congress

Linda T. Sánchez
Member of Congress

News from the
Committee on Small Business
Nydia M. Velázquez, Ranking Democratic Member

For Immediate Release
January 7, 2004

CONTACT: Wendy Belzer, Kate Davis
(202) 225-4038

Velázquez Decries Shutdown of Loan Program

Small businesses will suffer nationwide as access to capital is greatly diminished

WASHINGTON – Congresswoman Nydia M. Velázquez (D-N.Y.), Ranking Member of the House Small Business Committee, today called the administration's latest announcement to shut down the Small Business Administration's (SBA) 7(a) loan program "outrageous," and "detrimental to the growth of this nation's small businesses."

"As the economy struggles to create jobs, now is not the time to cut off small businesses from access to capital," Congresswoman Velázquez said. "Small businesses are the greatest job creator in this country and act as the catalyst of economic growth, yet they need capital to start up and expand. Instead of meeting the capital needs of our small firms, SBA is leaving them with no way to grow. Not only will small businesses feel the negative impact of this decision, but so will the U.S. economy as a whole."

The SBA's decision not to make any loans through its 7(a) loan program comes on the heels of its announcement last week to cap the 7(a) loan size at $750,000, even though small businesses are showing an increased demand for such loans. In addition, SBA made this decision, despite the fact that under the continuing resolution (CR), the agency has already been allocated $30 million of its FY 2003 appropriation. In canceling or returning all pending loan applications, estimated to include more than 1,000 loans worth over $500 million, the SBA risks undermining the future standing of the program and calls into question its integrity in operating its flagship loan program.

"These moves are the Bush administration's latest attempts to gut this critical program," Congresswoman Velázquez said. "The attack began shortly after the president took office with his first budget pushing for new taxes on all 7(a) participants, and was followed last year by a cap that took billions of dollars out of the economy, which could have created valuable jobs at a time when we needed them most."

The 7(a) loan program is SBA's most important lending initiative and is responsible for 40 percent of all long-term lending to this country's small businesses. The Bush administration's funding request for the 7(a) program has steadily declined from President Clinton's last budget request of $11.5 billion for 2001 to its most recent request of $9.3 billion for 2004. This decrease is inconsistent with the demand for 7(a) loans, which has increased to more than $12 billion in 2004.

"Here we have just another example of the ever-widening credibility gap between the Bush administration's rhetoric supporting small businesses, and the reality of its destructive policies on our entrepreneurs," Congresswoman Velázquez. "Democrats in Congress will oppose the move and will use every available avenue to stop it."

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510–6350

January 7, 2004

VIA FACSIMILE & FIRST-CLASS MAIL

The Honorable Hector V. Barreto
Administrator
Small Business Administration
409 Third Street, S.W.
Washington, D.C. 20416

Re: Abrupt Shut Down of the SBA's Largest Small-Business Lending Program without Statutorily Required Notice.

Dear Administrator Barreto:

As the office was closing last night, the Committee received an email from your staff announcing that SBA was immediately instituting a "lending holiday" for the 7(a) Loan Guarantee program.

On behalf of the nation's small business borrowers, the lenders who provide these loans on behalf of the SBA, and as Ranking Member of SBA's Senate oversight committee, I strongly object. The Committee has been given no evidence that the Agency is out of money, and neither the Agency's letter of December 23, 2003, advising the authorizing committees of the Agency's intent to institute a cap on 7(a) loans as of January 8th and to prepare for a hiatus in guarantee issuance, nor the email sent last night, officially shutting down the program, meet the test of notification as required by law. It is unnecessary for the Administration to close down the program when the SBA has the discretion to reprogram money to continue guaranteeing small business loans. That would keep the program running until Congress comes back into session, at which time the Administration could send up a request for supplemental funding to permit the program to meet the projected demand throughout the remainder of fiscal year 2004.

Not only should it be unnecessary to shut down the program, it should be unnecessary to cap loan size. Both could have been avoided had the Administration requested adequate program levels and budget authority in its FY 2003 and FY 2004 budgets, and had the Administration acted in a timely way to adjust to the growing demand for 7(a) loans, which has been evident over the past few months and years. For example, last year, FY2003, the program was in danger of running out of money and the Agency imposed a loan cap, and at the end of the year, demand was so high that the SBA issued a press release on October 10, 2003, boasting of more than a 30 percent increase in 7(a) lending in FY2003.

That 30 percent increase was in spite of artificially depressed volume caused by the aforementioned loan cap, a significant one that reduced the maximum loan size from $2 million to $500,000, and was in place for almost half the year.

Instead of taking action to avoid repeating past funding problems, in testimony before this Committee, the Administration has repeatedly criticized the industry's projections as excessive and dismissed concerns about the program running out of money. Consequently, when the higher estimates have been realized, Congress has been forced to bail out the Administration each year with additional appropriations and emergency legislation. I call upon you to reprogram money immediately in order to get small businesses the loans they are waiting for, and to reprogram money that does not hurt the other programs vital to small businesses. To avoid repeating a shortfall in FY2005, the President's budget should request a program level and budget authority that funds the 7(a) loan program to reflect the past few years of growing demand. A reasonable program level would be at least $13 billion.

Mr. Administrator, as you know from your extensive travels around the country, the SBA's 7(a) Loan Program is one of the largest sources of long-term lending to small businesses in this country and the source of more than 347,000 jobs created last year. We cannot afford for this program to be shut down or crippled. As I have done repeatedly in each of the past three years, I am willing to work with the Administration and my Congressional colleagues to help the SBA make sure the 7(a) loan program is successful.

With respect to loans that are already in the SBA processing "pipeline," and contrary to the direction issued in the Policy Notice (No. 0000-1707) that the SBA released last night, the Agency should not return or destroy any loan applications it receives. The Agency should hold the loans and date when they are received so that the Agency can process the loans in the order received once the program is again operating and guaranteeing loans. This approach is fair and does not penalize those who have pending applications.

In order to get the facts regarding this situation, please have delivered to my Committee office (Senate Russell Office Building, room 442) by noon on Thursday, January 8, 2004, the following information regarding *all* loans made under Section 7(a) of the Small Business Act, including the SBA Express pilot program loans and the Supplementary Terrorist Activity Relief program loans:

1. Broken down by business day, for the months of January and December 2003, and January 2, 5, and 6, 2004:
    a. Total number and dollar amount of loans for applications submitted;
    b. Total number and dollar amount of loans approved; and,
    c. Total number and dollar amount of loans disbursed.

2. On which date any office with the Agency returned applications.
3. For FY2003, the average daily rate of 7(a) lending for loans approved.
4. For FY2003, the average daily rate of 7(a) lending for loans disbursed.

Thank you, in advance, for your prompt cooperation.

Sincerely,

John F. Kerry
Ranking Member

cc: Senate Committee on Appropriations,
Subcommittee on Commerce, Justice, State and the Judiciary

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

January 12, 2004

VIA FACSIMILE & FIRST-CLASS MAIL

The Honorable Hector V. Barreto
Administrator
Small Business Administration
409 Third Street, S.W.
Washington, D.C. 20416

Re: Continued Shut Down of the SBA's Largest Small-Business Lending Program

Dear Administrator Barreto:

Thank you for your reply to my letter of January 7, 2004, regarding the Agency's abrupt shut down of its largest small business lending program. However, because the Agency replied to only part of one of the five questions posed, additional responses are needed for us to be able to work together to craft a prompt solution to this serious problem.

Further, it is unacceptable for the Administration to continue to exclude from the Agency's 7(a) data the 7(a) loans made to 9/11 victims when responding to our Committee's requests for 7(a) loan program information. *Any* loan made under Section 7(a) of the Small Business Act is a 7(a) loan, as my request specifically noted.

Now is the time for finding solutions, not for excuses. The Continuing Resolution is not what caused the funding problem, and you could have exercised your authority to reprogram money instead of abruptly shutting down small business lending. If there were no Continuing Resolution and the Small Business Administration's funding for FY2004 had been provided at the exact level requested by the President's FY2004 Budget, the current pace of demand, or even last year's demand, would have depleted the FY2004 funding in June or required the imposition of a loan cap to stretch the dollars. As it currently stands, the FY2004 Conference Report Appropriations Act includes more money than the President requested. To attempt to shift the blame for this immediate shut-down on the Congressional appropriators is inaccurate and unwise, at best.

Regardless of your testimony before this Committee over the years, including on June 4, 2003, that the President's requests would be sufficient, the Administration's funding requests have continually proven insufficient to meet the demand small businesses have for access to working capital. As you know, 7(a) small business loan dollars provide the hardest kind of capital to obtain, particularly long-term capital. That is why the 7(a) loan program is vital to small business owners in this country. On the date of the shut-down, small businesses were waiting for access to more than $600 million in capital. Therefore, it is imperative that the Agency immediately provide the requested information so that a prompt resolution can be developed and implemented.

As requested in my letter of January 6, 2004, please provide the following information regarding *all* loans made under Section 7(a) of the Small Business Act, including the SBA Express pilot program loans and the Supplementary Terrorist Activity Relief program loans:

1. Broken down by business day, for the months of January and December 2003, and January 2, 5, and 6, 2004:
    a. Total number and dollar amount of loans for applications submitted;
    b. Total number and dollar amount of loans approved; and,
    c. Total number and dollar amount of loans disbursed.
2. On which date any office with the Agency returned applications.
3. For FY2003, the average daily rate of 7(a) lending for loans approved.
4. For FY2003, the average daily rate of 7(a) lending for loans disbursed.

I look forward to receiving this information. Please have it delivered to my Committee office (Senate Russell Office Building, room 442) by 5pm, Tuesday, January 13, 2004.

Sincerely,

John F. Kerry
Ranking Member

cc: Senate Committee on Appropriations,
Subcommittee on Commerce, Justice, State and the Judiciary

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

The Honorable John F. Kerry
Ranking Member
Committee on Small Business
and Entrepreneurship
U.S. Senate
Washington, DC 20510

JAN 0 8 2004

Dear Senator Kerry:

Thank you for your letter of January 7, 2004, regarding the suspension of the U.S. Small Business Administration's (SBA) 7(a) loan program. As you are aware, we have met with relevant committee staff on this critical issue and are exploring all options to reopen the program as soon as possible.

On January 6, I took the step of suspending our 7(a) loan programs because, under the Continuing Resolution, SBA was in danger of exceeding available funding for the program. Under this Continuing Resolution, SBA is required to operate its programs at its rate of operations from the previous fiscal year. In FY 2003, SBA's appropriation resulted in a program level of $9.4 billion for 7(a) guaranteed loans. This tracks with the program's historical average over the last five years of $9.3 billion per fiscal year, which results in approximately $40 million per lending day. Operating under the Continuing Resolution, this would give the SBA the authority to guarantee approximately $3.3 billion of 7(a) loans through January 31, 2004.

Since October 1, 2003, SBA has been averaging a demand level of approximately $52 million per lending day. This peaked on January 2, 2004, at $115 million in one day. At this rate, it was very likely that SBA would exceed the amounts available under the Continuing Resolution. I therefore had to take action to avoid the probability of obligating funds in excess of available appropriations. We are working diligently with your staff and the appropriations committees to explore every option available, including any reprogramming that might be available under the Continuing Resolution, to resume the program as rapidly as possible.

Once SBA is able to reopen the program, we will take steps to ensure that every application is treated equitably and fairly. I look forward to working with you to rapidly resolve this issue.

Sincerely,

Hector V. Barreto

Hector V. Barreto
Administrator

Attachments

2004
GENERAL BUSINESS PROGRAM
DAILY REPORT OF LOAN APPROVALS
($ in Program levels)

	Funding Days	Monthly Daily Averages ($ in millions)				Actual Days	Approvals Daily Average	Approvals Month to Date	Approvals Year to Date	Apportionment (Cumulative)		Balance Available
1st Quarter		FY03	[illegible]	[illegible]	FY 04							
October	22	37.4	36.8	49.7	47.3	22	$ 47,300,840	$ 1,040,618,483		$ 794,112,420	1/	
November	19	35.0	36.6	21.8	81.1	19	$ 51,073,638	$ 919,325,453		283,000,000	2/	
December	21	38.4	45.6	19.6	56.0	21	$ 56,035,147	$ 1,176,738,089	$ 3,134,890,205	841,821,295	3/	$ 318,852
2nd Quarter										100,000,000	4/	
January	20	29.4	28.7	21.7						356,996,542	5/	
February	19	33.2	33.0	27.8						100,000,000	6/	
March	23	40.7	38.9	38.4						1,422,388,782	7/	
3rd Quarter												
April	22	29.3	35.6	60.5								
May	20	31.5	39.2	40.7								
June	22	42.5	38.1	47.1								
4th Quarter										(394,531,683)		
July	22	34.1	28.7	43.4						294,531,683		
August	22	38.5	28.7	48.4								
September	21	43.3	60.6	82.5								
DAYS REMAINING IN FY 2004:			191							$ 3,117,199,057		

Approvals as of:	Daily Amounts	Month to Date	Year to Date	Balance Available
December 1	$ 32,583,804	$ 32,580,801	$ 1,987,730,020	$ 1,144,463,037
December 2	$ 59,504,284	$ 92,088,189	$ 2,047,240,384	$ 1,084,958,763
December 3	$ 45,949,481	$ 138,047,679	$ 2,096,189,795	$ 1,039,009,262
December 4	$ 54,720,575	$ 192,768,254	$ 2,182,910,370	$ 984,288,687
December 5	$ 53,818,540	$ 246,586,794	$ 2,206,728,910	$ 930,470,147
December 8	$ 40,850,800	$ 287,437,384	$ 2,247,579,510	$ 889,619,547
December 9	$ 83,567,919	$ 371,005,313	$ 2,331,147,429	$ 806,051,628
December 10	$ 46,659,507	$ 417,664,820	$ 2,377,806,936	$ 759,392,121
December 11	$ 62,298,115	$ 479,962,935	$ 2,440,105,051	$ 697,094,006
December 12	$ 77,868,215	$ 557,831,150	$ 2,517,973,266	$ 619,225,791
December 15	$ 38,647,212	$ 596,478,362	$ 2,556,620,478	$ 580,578,579
December 16	$ 63,739,287	$ 660,217,649	$ 2,620,359,765	$ 516,839,292
December 17	$ 48,081,240	$ 708,298,889	$ 2,668,441,005	$ 468,758,052
December 18	$ 55,226,860	$ 764,525,749	$ 2,724,667,865	$ 412,531,192
December 19	$ 90,097,707	$ 854,623,456	$ 2,814,765,572	$ 322,433,485
December 22	$ 24,210,603	$ 878,834,059	$ 2,838,976,175	$ 298,222,882
December 23	$ 89,872,155	$ 968,706,214	$ 2,928,848,330	$ 208,350,727
December 24	$ 62,942,157	$ 1,031,648,371	$ 2,991,790,487	$ 145,408,570
December 25	Xmas Holiday			
December 26	Holiday declared by the President			
December 29	$ 26,935,175	$ 1,058,583,546	$ 3,018,725,662	$ 118,473,395
December 30	$ 75,860,817	$ 1,134,443,363	$ 3,094,586,479	$ 42,613,678
December 31	$ 42,295,826	$ 1,176,738,089	$ 3,136,880,205	$ 318,852

NOTE: Daily approval amounts include any cancellations, increases and reinstatements, or decreases completed for that day. Daily approval amounts for the first approval day of each week include any approvals made over weekend. Only the program levels of "Gross" approved amounts are reported. No "SBA amounts" are shown.

1/ Added 1st CR until October 31, 03 & $25,073,148 from carryover from FY 2003.

2/ Added to cover [illegible] end of October

3/ Added 2nd CR until November [illegible].

4/ Additional funding.

5/ CR[illegible] amount of $[illegible] and [illegible] from unobligated balance.

6/ Added per Program Office request on 11-21-03

7/ part of CR#4 & unobligated balance alloted through 12/31/03.

7(a)

FY 2003 GENERAL BUSINESS LOAN PROGRAM
DAILY REPORT OF LOAN APPROVALS
($ In Program Levels)

	Funding Days	Monthly Daily Averages ($ in Millions) (FY 00-03) FY 00	FY 01	[illegible]	FY 03	Actual Days	Approvals Daily Average	Month to Date	Year to Date	Apportionments Quarterly 3/	Balance Available
1st Quarter											
October	22	17.6	31.4	30.0	18.3	22	$ 18,282,190	$ 402,209,172		$ 90,046,125 1/	
November	19	19.4	30.0	30.6	21.8	19	$ 21,802,936	$ 414,256,765		94,380,780 2/	$ 209,293,331
December	21	14.8	36.7	45.0	19.6	21	$ 19,557,740	$ 410,712,530	$ 1,227,176,487		
2nd Quarter										94,198,780 3/	
January	21	34.8	28.4	28.7						$ 476,962,260 4/	-
February	19	33.1	33.2	32.6						680,584,863 5/	
March	21	42.8	40.7	35.9							
3rd Quarter											
April	22	39.2	33.5	35.0							
May	21	39.0	37.6	36.2							
June	21	41.4	42.5	34.1							
4th Quarter											
July	22	35.6	34.1	28.7							
August	21	33.7	38.8	28.7							
September	21	41.9	43.3	68.0							
DAYS REMAINING IN FY 2003:			188							$ 1,436,469,818	

Approvals as of:	Daily Approvals	Month to Date	Year to Date	Balance Available
DECEMBER 2	16,441,050	16,441,050	832,905,007	$ 600,584,611
DECEMBER 3	22,069,425	38,510,475	854,974,432	541,495,386
DECEMBER 4	19,170,727	57,681,202	874,145,159	562,124,659
DECEMBER 5	16,628,313	74,309,515	890,773,472	545,696,346
DECEMBER 6	21,881,677	96,191,192	912,655,149	523,814,669
DECEMBER 9	21,804,599	117,995,791	934,459,748	502,010,070
DECEMBER 10	22,978,050	140,973,841	957,437,798	479,032,020
DECEMBER 11	25,697,175	166,671,016	983,134,973	453,334,845
DECEMBER 12	15,756,343	182,427,359	998,891,316	437,578,502
DECEMBER 13	25,968,000	208,395,359	1,024,859,316	411,610,502
DECEMBER 16	14,948,646	223,344,005	1,039,807,962	396,661,856
DECEMBER 17	21,980,730	245,324,735	1,061,788,692	374,681,126
DECEMBER 18	21,274,854	266,599,589	1,083,063,546	353,406,272
DECEMBER 19	29,083,560	295,683,149	1,112,147,106	324,322,712
DECEMBER 20	25,470,300	321,153,449	1,137,617,406	298,852,412
DECEMBER 23	18,118,869	339,272,318	1,155,736,275	280,733,543
DECEMBER 24	14,891,086	354,163,404	1,170,627,361	265,842,457
DECEMBER 25	HOLIDAY - CHRISTMAS DAY OBSERVED			
DECEMBER 26	13,213,550	367,376,954	1,183,840,911	252,628,907
DECEMBER 27	15,739,000	383,115,954	1,199,579,911	236,889,907
DECEMBER 30	15,258,196	398,374,150	1,214,838,107	221,631,711
DECEMBER 31	12,338,380	410,712,530	1,227,176,487	209,293,331

NOTE: Daily approval amounts include any cancellations, increases and reinstatements, or decreases completed for that day. Daily approval amounts for the first approval day of each week include any approvals made over weekend.
Only the program levels of "Gross" approval amounts are reported. No "EBA amounts" are shown made over the weekend.

1/-Allotted 1st CR and part of unobligated balance brought forward.
2/- Allotted 2nd CR till 23rd October 2002.
3/ Allotted 3rd CR till 31st October 01
4/Allotted 4th CR till 16th November 2002.
5/Allotted 5th CR till 11thJanuary 2003.

7(a)

FY 2003 GENERAL BUSINESS LOAN PROGRAM
DAILY REPPORT OF LOAN APPROVALS
($ in Program Levels)

	Funding Days	Monthly Daily Averages ($ in Millions) (FY 00-03)				Actual Days	Approvals Daily Average	Approvals Month-to-Date	Approvals Year-to-Date	Apportionments Quarterly 2/	Balance Available 1/
		FY 00	FY 01	FY 02	FY 03						
1st Quarter											
October	22	37.6	31.4	36.6	18.3	22	$ 18,282,180	$ 402,208,172		$ 90,045,125 1/	
November	19	38.4	36.0	38.6	21.8	19	$ 21,802,936	$ 414,259,785		94,398,780 2/	
December	21	44.8	36.4	45.8	19.6	21	$ 19,557,740	$ 410,712,530			
2nd Quarter											
January	21	34.6	29.4	28.7	21.7	21	$ 21,695,800	$ 455,611,805	$ 1,682,788,292	94,398,780 3/	
February	19	33.1	33.2	32.6						$ 476,962,259 4/	$ 26,940,790
March	21	42.8	40.1	35.9						580,664,883 5/	
3rd Quarter										$ 271,259,264 6/	
April	22	35.3	33.3	35.0							
May	21	39.0	37.5	36.2							
June	21	41.1	47.5	34.1							
4th Quarter											
July	22	35.5	34.1	28.7							
August	21	33.7	38.8	26.7							
September	21	41.9	43.3	60.0							
DAYS REMAINING IN FY 2003:			164							$ 1,709,729,082	

Approvals as of:		Daily Approvals	Month to Date	Year to Date	Balance Available
JANUARY 1	HOLIDAY - NEW YEAR'S DAY OBSERVED				
JANUARY 2		15,171,035	15,171,035	1,242,347,522	$ 467,381,580
JANUARY 3		16,739,420	31,910,455	1,259,086,942	450,642,140
JANUARY 6		12,047,800	43,958,255	1,271,134,742	438,594,340
JANUARY 7		19,905,652	63,863,907	1,291,040,394	418,688,688
JANUARY 8		20,158,654	84,022,561	1,311,199,048	398,530,034
JANUARY 9		22,132,513	106,155,074	1,333,331,561	376,397,521
JANUARY 10		17,075,730	123,230,804	1,350,407,291	359,321,791
JANUARY 13		8,670,013	131,900,817	1,359,077,304	350,651,778
JANUARY 14		32,816,267	164,817,084	1,391,993,571	317,735,511
JANUARY 15		20,769,273	185,586,357	1,412,762,844	296,966,238
JANUARY 16		28,142,874	213,729,231	1,440,905,718	268,823,364
JANUARY 17		26,508,705	240,237,936	1,467,414,423	242,314,659
JANUARY 20	MARTIN LUTHER KINGS -HOLIDAY				
JANUARY 21		17,224,892	257,462,828	1,484,639,315	225,089,767
JANUARY 22		20,008,161	277,470,989	1,504,647,476	205,081,606
JANUARY 23		26,465,848	303,936,837	1,531,113,324	178,615,758
JANUARY 24		25,489,249	329,426,086	1,556,602,573	153,126,509
JANUARY 27		13,532,342	342,958,428	1,570,134,915	139,594,167
JANUARY 28		26,253,780	369,212,208	1,596,388,695	113,340,387
JANUARY 29		28,999,902	398,212,110	1,625,388,597	84,340,485
JANUARY 30		25,956,168	424,168,278	1,651,344,765	58,384,317
JANUARY 31		31,443,527	455,611,805	1,682,788,292	26,940,790

NOTE: Daily approval amounts include any cancellations, increases and reinstatements, or decreases completed for that day. Daily approval amounts for the first approval day of each week include any approvals made over weekend.
Only the program levels of "Gross" approval amounts are reported. No "SBA amounts" are shown.
made over the weekend.
1/ Allotted 1st CR and part of unobligated balance brought forward.
2/ Allotted 2nd CR on 23rd October 2002
3/ Allotted 3rd CR on 31st October 01
4/ Allotted 4th CR on 18th November 2002.
5/ Allotted 5th CR on 11th January 2003
6/ Allotted 6th CR on 31th January 2003.

2004
GENERAL BUSINESS PROGRAM
DAILY REPORT OF LOAN APPROVALS
($ in Program levels)

	Funding Days	Monthly Daily Averages ($ in Millions) (FY 01-04) FY 01	FY 02	FY 03	FY 04	Actual Days	Approvals Daily Average	Month to Date	Year to Date	Apportionments Quarterly 2/		Balance Available 1/
1st Quarter												
October	22	31.4	36.6	18.3	47.3	22	$ 47,309,848	$ 1,040,816,663		$ 794,112,428	1/	
November	'8	36.0	38.6	21.8	51.1	18	$ 51,073,636	$ 919,325,453		283,000,000	2/	
December	21	36.4	45.6	19.6	56.0	21	$ 56,035,147	$ 1,176,738,089		141,621,205	3/	
2nd Quarter										100,000,000	4/	
January	20	29.4	28.7	21.7	45.9	4	$ 45,914,004	$ 183,656,015	$ 3,320,536,220	395,866,642	5/	$ 12,797,113
February	19	33.2	32.6	27.0						100,000,000	6/	
March	20	40.7	38.9	39.4						1,322,398,782	7/	
3rd Quarter										196,134,276	8/	
DAYS REMAINING IN FY 2004:			191							$ 3,333,333,333		

Approvals as of:	Daily Approvals	Month to Date	Year to Date	Balance Available
January 2	$ 115,276,441	$ 115,276,441	$ 3,252,156,646	$ 81,176,687
January 5	44,770,024	160,046,465	3,296,926,670	36,406,663
January 6	20,215,992	180,262,457	3,317,142,662	16,190,671
January 7	3,393,558	183,656,015	3,320,536,220	12,797,113

NOTE: Daily approval amounts include any cancellations, increases and reinstatements, or decreases completed for that day. Daily approval amounts for the first approval day of each week include any approvals made over weekend.
Only the program levels of "Gross" approval amounts are reported. No "SBA amounts" are shown.
made over the weekend.

1/-Alloted 1st CR until October 31, 03 & $25,673,648 form carryover from FY 2003
2/-Alloted to cover till the end of October.
3/-Alloted 2nd CR until November 7th
4/-Additional funding.
5/-CR#3 amount of $335,866,642 and $60M from from unobligated balances.
6/ Alloted per Program Office requestion 11-21-03

FOR IMMEDIATE RELEASE

January 7, 2004

CONTACT: Craig Orfield
(202) 224-5175
http://sbc.senate.gov

SNOWE VOICES DEEP CONCERN OVER ADMINISTRATION's DECISION TO SUSPEND 7(a) SMALL BUSINESS LOANS

(**Washington**) – U.S. Senator Olympia J. Snowe (R-Maine) today voiced deep concern over the Small Business Administration's decision to suspend lending through its popular 7(a) Loan Program, saying the decision creates unnecessary anxiety in the small business community and could have an impact on the ability of small businesses to generate new jobs.

"I am disappointed by the Administration's decision to suspend 7(a) lending, which plays such a large role in providing basic operating and expansion capital to our small businesses," said Snowe, Chair of the Senate Committee on Small Business and Entrepreneurship. "This is a highly unusual move that could create a hardship for thousands of independent and family owned firms, particularly in Maine where small businesses account for virtually every new job created."

The SBA announced Tuesday that it was immediately suspending 7(a) loan guarantees. The announcement came almost two weeks after the agency said that, effective January 8, 2004, it would place a $750,000 cap on 7(a) loans, which are authorized by Congress up to a maximum of $2 million.

Under Snowe's leadership, the Senate Small Business Committee sought to ensure adequate funding for 7(a) loans, authorizing a $16 billion program level for Fiscal 2004 and warning the Administration that its budget request to fund a $9.3 billion program would not be adequate to meet loan demand. Although the full Senate approved the $16 billion level with its passage of Snowe's bill, S. 1375, the final Conference Agreement reached by the Appropriations committees only provides support for a program of up to $9.5 billion in 7(a) loans.

"The volume of requests for the 7(a) program demonstrates the need for increased program funding," Snowe added. "We must work together immediately to address the issues that are keeping small firms from tapping this vital source of job-creating capital."

The Senator's Small Business Committee staff is scheduled to meet with SBA officials late Wednesday to begin discussions on how to resolve the problem and to ensure that adequate funds are available to resume 7(a) loan guarantees.

Snowe noted that SBA Administrator Hector V. Barreto, in testimony before the Senate Small Business Committee, on June 4, 2003, pledged to work with Congress to monitor and expand budget authority for 7(a) loans, if necessary, to ensure adequate program funding for Fiscal 2004. The potential for a shortfall in 7(a) funding was one of the top concerns discussed by Snowe, Committee members and witnesses during the June 4 hearing.

Over the last three years, the 7(a) program has provided financing to more than 40,000 start-up small businesses – and to more than 99,000 existing small businesses. Those loans totaled more than $28 billion over the period, and helped small businesses create more than one million new jobs. That level of performance has drawn high praise from SBA officials as well as commercial banks and lenders, making the 7(a) Program one of the most efficient and effective programs administered by the SBA.

"In light of 7(a)'s strong track record and the President's commitment to create new jobs and energize the economy, I hope we can expect a quick resolution of this problem and a public show of commitment by the Administration to the 7(a) Program's long term viability," Snowe said.

###

NEWS RELEASE

United States Senate
Committee on Small Business
Olympia J. Snowe, Chair

FOR IMMEDIATE RELEASE

January 9, 2004

CONTACT: Craig Orfield
(202) 224-5175
http://sbc.senate.gov

SNOWE TAKES ISSUE WITH SBA's HANDLING OF DECISION TO SHUT DOWN CRITICAL 7(a) LOAN PROGRAM

(Washington, DC) – U.S. Senator Olympia J. Snowe (R-Maine) today took the Small Business Administration to task for failing to provide Congress the required notice of its decision to suspend the 7(a) small business loan program. The SBA had warned of a plan to impose a $750,000 cap on 7(a) loans, but suspended the program entirely without warning earlier this month.

In a letter to SBA Administrator Hector V. Barreto, sent late Thursday, Snowe wrote: December 23, 2003, the SBA provided notice to me, as Chair of the Senate Committee on Small Business & Entrepreneurship, of its intention to impose a 'cap' on individual loans in the SBA's 7(a) loan program as of January 8, 2004. This notice was required by Section 7(a)(24) of the 'Small Business Act,' which provides that the SBA must notify the Committee at least 15 days before making any significant policy or administrative change affecting the operation of the loan program."

"The SBA's subsequent actions in shutting down the program around January 5, 2004, or an earlier date clearly violate this statutory requirement," Snowe added. Snowe has already called for the restart of the 7(a) program as soon as possible, noting that the 7(a) program has provided financing to more than 40,000 start-up small businesses – and to more than 99,000 existing small businesses over the past three years.

Snowe said her concerns over the violation "should not stand in our way of resuming the program's operations immediately." She also reiterated a strong commitment to solve the budgetary shortfall plaguing the 7(a) program, writing to Barreto: "I remain completely committed to working with you to achieve continued success for the 7(a) loan program."

Snowe's Small Business Committee staff met with SBA and Office of Management and Budget (OMB) officials this week to discuss potential solutions, but SBA and OMB still have not submitted a formal proposal to Snowe or the Committee for review.

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510–6350

January 8, 2004

The Honorable Hector V. Barreto
Administrator
U.S. Small Business Administration
409 Third Street, S.W.
Washington, DC 20416

Dear Hector:

On December 23, 2003, the Small Business Administration (SBA) provided notice to me, as Chair of the Senate Committee on Small Business & Entrepreneurship, of its intention to impose a "cap" on individual loans in the SBA's 7(a) loan program as of January 8, 2004. This notice was required by Section 7(a)(24) of the Small Business Act, which provides that the SBA must notify the Committee at least 15 days before "making any significant policy or administrative change affecting the operation of the loan program under this subsection."

The SBA's subsequent actions in shutting down the program around January 5, 2004, or an earlier date clearly violate this statutory requirement.

While regretting this violation, it should not stand in our way of resuming the program's operations immediately. I remain completely committed to working with you to achieve continued success for the 7(a) loan program, which in just the past three years has provided financing to more than 150,000 small businesses and thereby created more than one million new jobs. I know of your own firm commitment to this endeavor, and I look forward to working with you in this most worthy cause. My staff continues to be available to work with your agency and others to find a positive resolution.

If you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Olympia Snowe

Olympia J. Snowe
Chair

FOR IMMEDIATE RELEASE

January 14, 2004

CONTACT: Craig Orfield
(202) 224-5175
http://sbc.senate.gov

SNOWE LAUDS RESTART OF 7(a) LOANS; PLEDGES TO WORK TO FIND LONG-TERM FIX FOR PROGRAM's BUDGETARY WOES

(Washington, DC) – U.S. Senator Olympia J. Snowe (R-Maine) Chair of the Senate Committee on Small Business and Entrepreneurship, today praised the restart of the critical 7(a) Loan Program following a temporary shutdown, but expressed concern at the agency's decision to impose new restrictions on loans without first consulting Congress.

"I appreciate the efforts of Administrator Hector Barreto to reopen 7(a), and understand the difficulties of the current situation but, nonetheless, I am troubled by the agency's decision to restart it with a new prohibition on 'piggyback loans,' which were commonly issued to the benefit of borrowers," said Snowe. "Additionally, the $750,000 loan cap will particularly harm capital-intensive manufacturers."

"The SBA clearly had a responsibility to notify Congress before introducing new restrictions which could discourage lenders from participating," Snowe added. "Unfortunately, we were not appropriately notified about this change in policy as required by law."

"This program is clearly crucial to the success of American small businesses, and central to our efforts to create more jobs for Americans," she said. "The SBA should demonstrate a strong commitment to the program."

Snowe also again voiced disappointment that the SBA has not provided a written plan to the Senate Committee on Small Business to address long-term funding and management problems with 7 (a).

Snowe urged the SBA to construct plans to ensure that the 7(a) Program will be fully funded for the remainder of 2004 and in future years. "I remain committed to working with the Administrator Barreto to find a long-term solution to the 7(a) funding shortage and avoid future interruptions. Sustaining the 7(a) Program and helping small businesses who applied for loans that were not approved before the shutdown get their funds as quickly as possible must be top priorities," she added.

Congress has given the SBA approval to tap an additional $470 million in appropriated funds, which should keep the loan program funded through January 31, when the current continuing resolution funding the federal government will expire.

An estimated $11.3 billion in 7(a) loans were made during Fiscal 2003, and at the current pace of loans being issued, demand during Fiscal 2004 could reach approximately $12 billion, Snowe believes.

NSBA
National Small Business Association

The Honorable Hector V. Barreto
U.S. Small Business Administration
409 3rd Street, SW
Suite 7000
Washington, DC 20416

January 8, 2004

Dear Administrator Barreto:

On behalf of the National Small Business Association, I would like to express my concern over the recent freeze of the SBA 7(a) lending program. Though we can certainly appreciate the difficult position you face in dealing with larger demand than your budget affords, NSBA would like to formally state our support of the 7(a) program and stress upon you the importance of continuity in this program.

As the nation's oldest nonpartisan small business advocacy group, NSBA reaches more than 100,000 small businesses across the country. We hear time and again the importance of SBA's 7(a) program in helping to grow small businesses. With demand on the rise for this program, it is clear that the market is talking – the small business market needs your help in working to further this most recent economic surge.

The initial notice put forth by SBA established a loan cap of $750,000 on all 7(a) loans, effective January 8, 2004. While we would argue that loan caps are detrimental to the overall program and have adverse long-term affects, we can understand the short-term conundrum you face in limited resources to meet expanded demand. The most recent change to the program, casually called a "lending holiday", will in effect, stop the disbursement of any 7(a) loan indefinitely. Even those loans that small business owners and lenders have processed and have received pre-approval for could be halted by this most recent change.

As SBA has noted, a large number of loans greater than $750,000 were submitted following notice of the $750,000 cap. Small business owners and lenders alike worked to ensure their loans got approved and disbursed prior to the enactment of that cap in order to move forward on their business growth plans. NSBA is concerned that those people, even with the 7(a) hold lifted, could have their loans denied in their entirety, forcing the business owner to completely re-apply for a loan. Not only would this potential problem harm these small business owners, it would tarnish an agency whose purpose it is to protect the interests of small business.

Though a lack of fluid information exists surrounding the hiatus of the 7(a) program, NSBA would encourage SBA to seriously consider the detriment to not only the overall 7(a) program, but the hardships small businesses will inevitably face due to the "lending holiday". As has been stated time and again, the demand for 7(a) loans is on the increase, to just over $ 1 billion per month. The clear disregard of that increase as reflected in budget requests has led us to the position we are currently faced with: limited resources to meet increasing need.

NSBA would encourage the SBA to seek alternative ways of dealing with this problem. A potential short-term fix would be to reprogram the needed funds to meet demand through the end of January. To get through the balance of FY 2004, we would support additional appropriations rather than additional loan caps or "loan holidays" on the 7(a) program. We believe this kind of action at a time when Congress can do little to help stands to impair small business faith in the 7(a) program and SBA overall, as well as discourage lender support and participation in the 7(a) program.

Beyond the initial short-term fix, we believe that the crunch SBA is now faced with should be a wake-up call to both the SBA and Congress. Demand for 7(a) loans has been on the rise and doesn't appear to be a temporary development. NSBA has advocated for a strong, appropriately funded 7(a) program to avoid quagmires such as this, we again urge both Congress and the SBA to request and appropriate funds adequate to meet the demand for the 7(a) program.

As a program that not only nets the Treasury money in excess fees, but also leverages funds in the private sector 99 to 1, the importance of the 7(a) program cannot be overlooked. We urge you to reconsider both the "lending holiday" and the loan cap on the 7(a) program and seek alternate options to alleviate the budget shortfalls you are facing.

Respectfully,

Todd O. McCracken
President

cc:

Senate Committee on Small Business and Entrepreneurship
- Sen. Olympia Snowe, Chair
- Sen. John Kerry, Ranking Member

House Committee on Small Business
- Rep. Donald Manzullo, Chair
- Rep. Nydia Velazquez, Ranking Member

Senate Appropriations Subcommittee on Commerce, Justice, State and the Judiciary
- Sen. Judd Gregg, Chair
- Sen. Ernest F. Hollings, Ranking Member

House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies
- Rep. Frank Wolf, Chair
- Rep. Jose Serrano, Ranking Member

Executive Office of the President, Office of Management and Budget
- Joshua B. Bolton, Director